

United States Senate
Committee on Finance



Sen. Chuck Grassley • Iowa
Ranking Member

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Thursday, March 19, 2009

Grassley calls on Fannie and Freddie to justify bonus programs amid losses and bailouts

WASHINGTON --- Senator Chuck Grassley is asking Fannie Mae and Freddie Mac to account for their retention bonus programs while the entities were losing money and even after they accepted taxpayer-funded bailouts.

“Just as with the extravagant bonus pay at AIG, it’s important to make sure that taxpayer support isn’t enabling unreasonable compensation arrangements that would never have been possible without taxpayer assistance,” Grassley said.

Fannie Mae reported a loss of \$58.7 billion for 2008, and has requested another \$15.2 billion from the U.S. Treasury. Freddie Mac reported a loss of \$50.1 billion for 2008, and has requested an additional \$30.8 billion from the U.S. Treasury.

The text of Grassley’s letters to the government-sponsored enterprises is below.

March 19, 2009

Herbert M. Allison, Jr.
President and Chief Executive Officer
Fannie Mae
3900 Wisconsin Avenue, NW
Washington, DC 20016

Dear Mr. Allison:

As Fannie Mae is currently under the conservatorship of the Federal Housing Finance Agency (FHFA), U.S. taxpayers have a substantial interest in its operational decisions. Taxpayers should see their tax dollars applied in a manner that will provide them with as optimal a return as possible. However, Fannie Mae reported a loss of \$58.7 billion for 2008 and has requested another \$15.2 billion from the U.S. Department of the Treasury (Treasury) to be paid by March 31, 2009. Just as with extravagant bonus pay at American International Group, it is important to ensure that taxpayer support is not

enabling unreasonably generous compensation arrangements that would have never have been possible but for taxpayer assistance.

Payments mandated under Fannie Mae's Retention Program are among the expenses leading to a \$58.7 billion loss in 2008. The Retention Program has already paid out to four executives a total of \$880,000, is set to pay another \$2,068,000 to these executives in 2009, and a third "performance-based" payment of \$1,452,000 to these executives in 2010. Considering Fannie Mae's lackluster performance in 2008 and shortage of funds for the coming year, it should carefully consider all expenditures, including those expenditures relating to executive compensation. Because I am concerned with maximizing taxpayers' investment in Fannie Mae, I am requesting (1) the official documents outlining the Retention Program and any other bonus compensation arrangements; (2) records of any communications related to the formation and implementation of the Retention Program and other bonus compensation arrangements; and (3) any contracts that have been executed in accordance with the Retention Program or other bonus compensations arrangements that would bind Fannie Mae to making bonus payments in the future.

Additionally, please answer the following questions:

- 1) Describe the policy reasons for implementing the Retention Program.
- 2) Describe any other retention or similar programs implemented by Fannie Mae over the last 3 calendar years and advise me whether or not any individual is currently receiving a bonus that was authorized prior to Fannie Mae being placed under a conservatorship.
- 3) Describe any alternatives that were considered for achieving the same objectives as the Retention Program.
- 4) What are the criteria for determining the executive's "performance" when establishing the amount of the final February 2010 payment?
- 5) Please provide a list of the names, titles, and position descriptions for each employee to whom Fannie Mae paid bonuses of \$100,000 or more in 2008 or whom it may pay bonuses of \$100,000 or more in 2009 or 2010. Please include (a) the length of time each such person was employed by Fannie Mae, (b) an explanation why it is critical to retain that particular employee, (c) whether that employee was still employed as of the date of this letter, (d) to what extent the employee has committed to remain with Fannie Mae and for what length of time.

Please respond to my requests no later than March 26, 2009. Thank you for your cooperation in this matter.

Sincerely,
Charles E. Grassley of Iowa

United States Senator
Ranking Member of the Committee on Finance

March 19, 2009
John A. Koskinen
Interim Chief Executive Officer
Freddie Mac
8200 Jones Branch Drive
McLean, Virginia 22102

Dear Mr. Koskinen:

As Freddie Mac is currently under the conservatorship of the Federal Housing Finance Agency (FHFA), U.S. taxpayers have a substantial interest in the operational decisions. Taxpayers should see their tax dollars applied in a manner that will provide them with as optimal a return as possible. However, Freddie Mac reported a loss of \$50.1 billion for 2008 and has requested another \$30.8 billion from the U.S. Department of the Treasury (Treasury). Just as with extravagant bonus pay at American International Group, it is important to ensure that taxpayer support is not enabling unreasonably generous compensation arrangements that would have never have been possible but for taxpayer assistance.

Although Freddie Mac has not released the amount of payments made under its Retention Program, payments mandated under Freddie Mac's Retention Program are undoubtedly among the expenses leading to a \$50.1 billion loss in 2008. Considering Freddie Mac's lackluster performance in 2008 and shortage of funds for the coming year, it should carefully consider all expenditures, including those expenditures relating to executive compensation. Because I am concerned with maximizing taxpayers' investment in Freddie Mac, I am requesting (1) the official documents outlining the Retention Program and any other bonus compensation arrangements; (2) records of any communications related to the formation and implementation of the Retention Program and other bonus compensation arrangements; and (3) any contracts that have been executed in accordance with the Retention Program or other bonus compensations arrangements that would bind Freddie Mac to making bonus payments in the future.

Additionally, please answer the following questions:

- 1) Describe the policy reasons for implementing the Retention Program.
- 2) Describe any other retention or similar programs implemented by Freddie Mac over the last 3 calendar years and advise me whether or not any individual is currently receiving a bonus that was authorized prior to Freddie Mac being placed under a conservatorship.
- 3) Describe any alternatives that were considered for achieving the same objectives as the Retention Program.

- 4) What are the criteria for determining the executive's "performance" when establishing the amount of the final February 2010 payment?
- 5) Under what circumstances might Freddie Mac invoke the clause in the Retention Program that allows it to "terminate the program or modify its provisions at anytime for any reason at the corporation's sole discretion?"
- 6) Please provide a list of the names, titles, and position descriptions for each employee to whom Freddie Mac paid bonuses compensation of \$100,000 or more in 2008 or whom it may pay bonuses of \$100,000 or more in 2009 or 2010. Please include (a) the length of time each such person was employed by Freddie Mac, (b) an explanation why it is critical to retain that particular employee, (c) whether that employee was still employed as of the date of this letter, (d) to what extent the employee has committed to remain with Freddie Mac and for what length of time.

Please respond to my requests no later than March 26, 2009. Thank you for your cooperation in this matter.

Sincerely,

Charles E. Grassley of Iowa
United States Senator
Ranking Member of the Committee on Finance